



CALIFORNIA BOARD OF ACCOUNTANCY

2000 EVERGREEN STREET, SUITE 250
SACRAMENTO, CA 95815-3832
TELEPHONE: (916) 263-3680
FACSIMILE: (916) 263-3675
WEB ADDRESS: <http://www.dca.ca.gov/cba>



Regulation Change Notice

From

UPDATE #54

May 13, 2003

Regulation Notice

TITLE 16. CALIFORNIA BOARD OF ACCOUNTANCY

NOTICE IS HEREBY GIVEN that the California Board of Accountancy is proposing to take the action described in the Informative Digest. Any person interested may present statements or arguments orally or in writing relevant to the action proposed at a hearing to be held at the Embassy Suites, 150 Anza Boulevard, in Burlingame, CA 94010 at 2:00 p.m., on July 25, 2003. Written comments, including those sent by mail, facsimile, or e-mail to the addresses listed under Contact Person in this Notice, must be received by the California Board of Accountancy at its office no later than 5:00 p.m. on July 22, 2003, or must be received by the California Board of Accountancy at the hearing. If submitted at the hearing, it is requested, although not required, that 25 copies be made available for distribution to Board members and staff. The California Board of Accountancy, upon its own motion or at the instance of any interested party, may thereafter adopt the proposals substantially as described below or may modify such proposals if such modifications are sufficiently related to the original text. With the exception of technical or grammatical changes, the full text of any modified proposal will be available for 15 days prior to its adoption from the person designated in this Notice as the Contact Person and will be mailed to those persons who submit written or oral testimony related to this proposal or who have requested notification of any changes to the proposal.

Authority and Reference: Pursuant to the authority vested by Sections 5010, 5027, 5092, 5093, and 5095 of the Business and Professions Code and to implement, interpret or make specific Sections 5023, 5026, 5027, 5028, 5051, 5087, 5088, 5092, 5093, and 5095 of the Business and Professions Code, the California Board of Accountancy is considering changes to Division 1 of Title 16 of the California Code of Regulations as follows:

INFORMATIVE DIGEST/POLICY STATEMENT OVERVIEW

1. Amend Sections 12 and 12.5 of Title 16 of the California Code of Regulations.

Business and Professions Code Section 5010 authorizes the Board to adopt, amend, or repeal such regulations as may be necessary for the orderly administration of the Accountancy Act. Business and Professions Code Section 5092 and 5093 establish the requirements for licensure by the California Board of Accountancy and authorize the Board to adopt regulations as necessary to implement those sections.

Current Section 12 specifies the general experience requirements for licensure under Business and Professions Code Sections 5092 and 5093, and current Section 12.5 specifies the attest experience requirements under Business and Professions Code Section 5095.

This proposal would revise Sections 12 and 12.5 to clarify that the CPA providing services to the applicant's private industry, government agency, or other non-public accounting employer cannot verify the applicant's experience. This proposal would also add a definition of what it means to supervise an applicant's experience.

The objective of this proposal is to clarify the requirements for supervision and verification of a licensure applicant's experience.

2. Amend Sections 87, 87.1, and 90 of Title 16 of the California Code of Regulations.

Business and Professions Code Section 5026 mandates continuing education for licensees of the California Board of Accountancy and Section 5027 requires the Board to adopt regulations specifying continuing education requirements.

Current Section 87 specifies basic continuing education requirements. Current Section 87.1 specifies requirements for conversion to active status prior to renewal. Current Section 90 specifies exceptions and extensions related to continuing education requirements.

This proposal would amend Section 87 to add a requirement that licensees who do accounting and auditing, including government audits, complete eight hours of continuing education in detecting fraud affecting financial statements or reporting on financial statements. This proposal also makes a comparable change to the requirements for conversion to active status prior to renewal in current Section 87.1. In addition, a provision is added to Section 90 to provide for an extension related to fraud detection continuing education. This extension is comparable to the extension in current Section 90 related to accounting and auditing and governmental audit continuing education.

The objective of this proposal is to better prepare licensees to detect fraudulent activities during the course of the audit.

FISCAL IMPACT ESTIMATES

Fiscal Impact on Public Agencies Including Costs or Savings to State Agencies or Costs/Savings in Federal Funding to the State: None.

Nondiscretionary Costs/Savings to Local Agencies: None.

Local Mandate: None.

Cost to Any Local Agency or School District for Which Government Code Section 17561 Requires Reimbursement: None.

Business Impact:

The California Board of Accountancy has made an initial determination that the proposed regulatory action would have no significant statewide adverse economic impact directly affecting business, including the ability of California businesses to compete with businesses in other states.

AND

The following studies were relied upon in making that determination: None.

Impact on Jobs/New Businesses:

The California Board of Accountancy has determined that this regulatory proposal will not have any impact on the creation of jobs or new businesses or the elimination of jobs or existing businesses or the expansion of businesses in the State of California.

Cost Impact on Representative Private Person or Business:

The California Board of Accountancy is not aware of any significant cost impacts that a representative private person or business would necessarily incur in reasonable compliance with the proposed action.

Effect on Housing Costs: None

EFFECT ON SMALL BUSINESS

The California Board of Accountancy has determined that the proposed regulations would affect small businesses.

CONSIDERATION OF ALTERNATIVES

The California Board of Accountancy must determine that no reasonable alternative which it considered or that has otherwise been identified and brought to its attention would either be more effective in carrying out the purpose for which the action is proposed or would be as effective and less burdensome to affected private persons than the proposal described in this Notice.

Any interested person may present statements or arguments orally or in writing relevant to the above determinations at the above-mentioned hearing.

INITIAL STATEMENT OF REASONS AND INFORMATION

The California Board of Accountancy has prepared an initial statement of the reasons for the proposed action and has available all the information upon which the proposal is based.

TEXT OF PROPOSAL

Copies of the exact language of the proposed regulations and of the initial statement of reasons, and all of the information upon which the proposal is based, may be obtained at the hearing or prior to the hearing upon request from the California Board of Accountancy at 2000 Evergreen Street, Suite 250, Sacramento, California 95815.

AVAILABILITY AND LOCATION OF THE FINAL STATEMENT OF REASONS AND RULEMAKING FILE

All the information upon which the proposed regulations are based is contained in the rulemaking file which is available for public inspection by contacting the person named below.

You may obtain a copy of the final statement of reasons once it has been prepared, by making a written request to the contact person named below or by accessing the Web site listed below.

CONTACT PERSON

Inquiries or comments concerning the proposed administrative action may be addressed to:

Name: Aronna Granick
Address: California Board of Accountancy
2000 Evergreen Street, Suite 250
Sacramento, CA 95815

Telephone No.: (916) 263-3788
Fax No.: (916) 263-3675
E-Mail Address: regcomment603@cba.ca.gov

The backup contact person is:

Name: Mary Crocker
Address: California Board of Accountancy
2000 Evergreen Street, Suite 250
Sacramento, CA 95815

Telephone No.: (916) 263-3940
Fax No.: (916) 263-3675
E-Mail Address: regcomment603@cba.ca.gov

Inquiries concerning the substance of the proposed regulations may be directed to Aronna Granick at (916) 263-3788.

Web site access: Materials regarding this proposal can be found at www.dca.ca.gov/cba.

TEXT OF PROPOSAL

Section 12. General Experience Required Under Business and Professions Code Sections 5092 and 5093.

(a) In order to meet the experience requirement of Section 5092 or Section 5093 of the Business and Professions Code, experience must be supervised by a person holding a valid license or comparable authority to practice public accounting as specified in subdivision (d) of Section 5092 or subdivision (d) of Section 5093.

(1) To supervise an applicant's experience, the supervisor must directly oversee and inspect the applicant's performance of the services described in subsection (b). This must include personal, ongoing communication between the supervisor and the applicant regarding the applicant's performance of the services described in subsection (b).

(2) Experience shall be verified by the person supervising the experience and by a second person with a higher level of responsibility in the firm or agency. If the experience is obtained in public accounting, the second person signing the verification shall be an owner of the firm holding a valid license or comparable authority to practice public accounting. If the person supervising the experience is also an owner of the public accounting firm, no second signature is required. If the experience is obtained at a private business, no second signature is required if the person supervising the experience is also an owner of the private business.

(3) Experience may not be supervised by a licensee who provides public accounting services to the applicant's non-public accounting employer.

(4) All verifications shall be signed under penalty of perjury.

(b) The experience required by Section 5092 or Section 5093 involves providing any type of service or advice involving the use of accounting, attest, compilation, management advisory, financial advisory, tax, or consulting skills. Qualifying experience may be gained through employment in public practice, industry, or government. Experience acquired in academia is not qualifying.

(c) The experience required by Section 5092 or Section 5093 of the Business and Professions Code may be obtained in full-time or part-time employment provided the total experience completed by the applicant is the equivalent of at least

two years of full time employment for an applicant qualifying under Section 5092 or at least one year of full time employment for an applicant qualifying under Section 5093. In evaluating an applicant's experience, 170 hours of part-time employment shall be considered equivalent to one month of full-time employment.

(d) An applicant who is applying under Section 5092 or Section 5093 of the Business and Professions Code with experience obtained five (5) or more years prior to application will be required to obtain 48 hours of continuing education in specific areas prescribed by the Board.

(e) An applicant, pursuant to Section 5087 of the Accountancy Act, may be considered to have met the experience requirement of Section 5092 and 5093 if the applicant shows to the satisfaction of the Board that the applicant has been engaged in the practice of public accounting as a licensed Certified Public Accountant in another state for four of the ten years preceding the date of application for a California license.

Note: Authority cited: Sections 5010, 5092, and 5093, Business and Professions Code. Reference: Sections 5087, 5092, and 5093.

Section 12.5. Attest Experience Under Business and Professions Code Section 5095.

(a) To be authorized to sign reports on attest engagements pursuant to Business and Professions Code Section 5095, an applicant for a California Certified Public Accountant license pursuant to Business and Professions Code Section 5087, 5092, or 5093 or holder of an unexpired California Certified Public Accountant license issued pursuant to Business and Professions Code Section 5087, 5092, or 5093 shall show to the satisfaction of the Board that he or she meets the requirements of this section and Business and Professions Code Section 5095.

(1) Some or all of the experience required by Section 5095 and this section may be completed prior to issuance of the California Certified Public Accountant license. Any experience that would be qualifying for purposes of Section 5095 and this section may also serve as qualifying experience for purposes of Section 5083, 5092, or 5093. To be qualifying for purposes of Section 5095 and this section, any experience obtained after issuance of the California Certified Public Accountant license must be obtained while the license is held in active status.

(2) A holder of an active California Certified Public Accountant license may commence signing reports on attest engagements upon receipt of notification from the Board that he or she has met the requirements of this section and Business and Professions Code Section 5095. A holder of an inactive California Certified Public Accountant license may apply under this section, but must convert the license to active status before commencing to sign reports on attest engagements.

(3) An applicant for the California Certified Public Accountant license who has met the requirements of this section and Business and Professions Code Section 5095 may commence signing reports on attest engagements upon license issuance.

(b) In order to meet the attest experience requirements of Section 5095 an applicant for or holder of a California Certified Public Accountant license shall show to the satisfaction of the Board that the applicant has completed a minimum of 500 hours of attest experience. This experience shall include all of the following:

(1) Experience in the planning of the audit including the selection of the procedures to be performed.

(2) Experience in applying a variety of auditing procedures and techniques to the usual and customary financial transactions included in financial statements.

(3) Experience in the preparation of working papers in connection with the various elements of (1) and (2) above.

(4) Experience in the preparation of written explanations and comments on the work performed and its findings.

(5) Experience in the preparation of and reporting on full disclosure financial statements.

(c) In order to be qualifying, experience obtained pursuant to Section 5095 of the Business and Professions Code must be supervised by a person holding a valid license or comparable authority to provide attest services as specified in subdivision (b) of Business and Professions Code Section 5095.

(1) To supervise an applicant's experience, the supervisor must directly oversee and inspect the applicant's performance of the services described in subsection (b). This must include personal, ongoing communication between the supervisor and the applicant regarding the applicant's performance of the services described in subsection (b).

(2) Experience shall be verified by the supervisor and by a second person with a higher level of responsibility in the firm or agency. The verification shall be signed by both persons under penalty of perjury. If the experience is obtained in public accounting, the second person signing the verification shall be an owner of the firm holding a valid license or comparable authority to practice public accounting. If the owner of the public accounting firm signing the verification is also the person supervising the experience, no second signature is required.

(3) Experience may not be supervised by a licensee who provides public accounting services to the applicant's non-public accounting employer.

(d) In order to demonstrate the completion of qualifying experience, an applicant for or holder of a California Certified Public Accountant license may be required to appear before the Qualifications Committee to present work papers, or other evidence, substantiating that his or her experience meets the requirements of Section 5095 of the Business and Professions Code and of subsection (b) of this section.

(e) The applicant who is applying with attest experience obtained outside the United States and its territories must present work papers substantiating that such experience meets the requirements of subsection (b) and generally accepted auditing standards. Alternatively, the applicant may acquire a minimum of 500 hours of United States experience which meets the requirements of Business and Professions Code Section 5095 and subsection (b).

(f) The applicant who is applying with experience obtained five (5) or more years prior to application may be required to obtain 48 hours of continuing education courses in specific areas prescribed by the Board.

(g) The applicant, pursuant to Section 5087 of the Accountancy Act, may be considered to have met the experience requirement of Section 5095 if the applicant shows to the satisfaction of the Board that the applicant has been authorized to provide attest services as a certified public accountant in another state for four of the ten years preceding the date of application for a California license.

(h) The experience required by Section 5095 may be obtained in full-time or part-time employment.

Note: Authority cited: Sections 5010 and 5095, Business and Professions Code. Reference: Section 5023, 5087, 5092, 5093, and 5095, Business and Professions Code.

Section 87. Basic Requirements.

(a) 80 Hours.

As a condition of active status license renewal, a licensee shall complete at least 80 hours of qualifying continuing education as described in Section 88 in the two-year period immediately preceding license expiration and meet the reporting requirements specified in subsection (a) of Section 89. A licensee engaged in the practice of public accountancy as defined in Section 5051 of the Business and Professions Code is required to hold a license in active status. No carryover of continuing education is permitted from one two-year license renewal period to another.

(b) Government Auditing Continuing Education Requirement.

A licensee who engages in planning, directing, conducting substantial portions of field work, or reporting on financial or compliance audits of a governmental agency shall complete 24 of the 80 hours required pursuant to subsection (a) in the areas of governmental accounting, auditing or related subjects. This continuing education shall be completed in the same two-year license renewal period as the report is issued. A governmental agency is defined as any department, office, commission, authority, board, government-owned corporation, or other independent establishment of any branch of federal, state or local government. Related subjects are those which maintain or enhance the licensee's knowledge of governmental operations, laws, regulations or reports; any special requirements of governmental agencies; subjects related to the specific or unique environment in which the audited entity operates; and other auditing subjects which may be appropriate to government auditing engagements. A licensee who meets the requirements of this subsection shall be deemed to have met the requirements of subsection (c).

(c) Accounting and Auditing Continuing Education Requirement.

A licensee who engages in planning, directing, performing substantial portions of the work, or reporting on an audit, review, compilation, or attestation service, shall complete 24 hours of the 80 hours of continuing education required pursuant to subsection (a) in the course subject matter specified in this subsection. Course subject matter must pertain to financial statement preparation and/or reporting (whether such statements are prepared on the basis of generally accepted accounting principles or other comprehensive bases of accounting), auditing, reviews, compilations, industry accounting, attestation services, or assurance services. This continuing education shall be completed in the same two-year license renewal period as the report is issued. If no report is issued because the financial statements are not intended for use by third parties, the continuing education shall be completed in the same two-year license renewal period as the financial statements are submitted to the client.

(d) A licensee who must complete continuing education pursuant to subsections (b) and/or (c) of this section shall also complete an additional eight hours of continuing education in detecting fraud affecting financial statements or reporting on financial statements. This continuing education shall be part of the 80 hours of continuing education required by subsection (a), but shall not be part of the continuing education required by subsection (b) or (c). This requirement applies to licensees who renew their licenses after July 1, 2004.

~~(d)~~(e) New Licensees.

(1) A licensee receiving an initial CPA license from the California Board of Accountancy shall be required to complete 20 hours of continuing education as described in Section 88 for each full 6 month interval in the initial license period as a condition of active status license renewal.

(2) A licensee engaged in governmental auditing as described in subsection (b) at any time during the initial license period shall complete 6 hours of governmental continuing education as described in subsection (b) as part of each 20 hours of continuing education required for active status license renewal.

(3) A licensee who provides audit, review, compilation, or attestation services as described in subsection (c) at any time during the initial license period shall complete 6 hours of accounting and auditing continuing education as described in subsection (c) as part of each 20 hours of continuing education required for active status license renewal.

(4) If the initial license period is less than 6 full months, there is no continuing education required for license renewal.

~~(e)~~ (f) Out-of State Licensees.

Any person who applies to the Board for a certified public accountant certificate under the provisions of Section 5087, may obtain the Board's approval to engage in the practice of public accountancy under the provisions of Section 5088 subject to the applicant having completed 80 hours of qualifying continuing education within the preceding two (2) years. The Board reserves the right to verify the applicant's continuing education. If a CPA certificate is granted by the California Board of Accountancy, the provisions of subsection ~~(d)~~ (e) shall apply.

~~(f)~~ (g) Failure to Comply.

A licensee's willful failure to comply with the requirements of this section shall constitute cause for disciplinary action pursuant to Section 5100~~(f)~~(g) of the Accountancy Act.

Note: Authority cited: Section 5027, Business and Professions Code. Reference: Sections 5026, 5027, 5028, 5051 and 5088, Business and Professions Code.

87.1. Conversion to Active Status Prior to Renewal.

(a) A licensee who has renewed his/her license in inactive status may convert to active status prior to the next license expiration date by (1) completing 80 hours of continuing education credit as described in Section 88, including the professional conduct and ethics course described in Section 87.7, in the 24 month period prior to converting to active status; (2) applying to the board in writing to convert to active status; and (3) completing any continuing education that is required pursuant to subsection (j) of Section 89. The licensee may not practice public accounting until the application for conversion to active status has been approved.

(b) A licensee who, during the 24 months prior to converting to active status, planned, directed, or conducted substantial portions of field work, or reported on financial or compliance audits of a governmental agency shall complete 24 hours of continuing education in governmental accounting and auditing as described in Section 87(b) as part of the 80 hours of continuing education required to convert to active status under subsection (a).

(c) A licensee who, during the 24 months prior to converting to active status, planned, directed, or performed substantial portions of the work or reported on an audit, review, compilation, or attestation service shall complete 24 hours of continuing education in accounting and auditing as described in Section 87(c) as part of the 80 hours of continuing education required to convert to active status under subsection (a).

(d) A licensee who must complete continuing education pursuant to subsections (b) and/or (c) of this section shall also complete an additional eight hours of continuing education in detecting fraud affecting financial statements or reporting on financial statements. This continuing education shall be part of the 80 hours of continuing education required by subsection (a), but shall not be part of the continuing education required by subsections (b) or (c). This requirement applies to licensees who convert to active status after July 1, 2004.

~~(d)~~ (e) Once converted to active status, the licensee must complete 20 hours of continuing education as described in Section 88 for each full 6 month period from the date of conversion to active status to the next license expiration date in order to fulfill the continuing education requirement for license renewal. If the time period between the date of change to active status and the next license expiration date is less than 6 full months, no additional continuing education is required for license renewal.

~~(e)~~ (f) Once converted to active status, a licensee who engages in financial or compliance auditing of a governmental agency at any time between the date of conversion to active status and the next license expiration date shall complete

6 hours of governmental continuing education as part of each 20 hours of continuing education required under subsection ~~(d)~~ (e). Continuing education in the areas of governmental accounting and auditing shall meet the requirements of Section 87(b).

~~(f)~~ (g) Once converted to active status, a licensee who engages in audit, review, compilation, or attestation services at any time between the date of conversion to active status and the next license expiration date shall complete 6 hours of continuing education in accounting and auditing as part of each 20 hours of continuing education required under subsection ~~(d)~~ (e). Continuing education in the areas of accounting and auditing shall meet the requirements of Section 87(c).

Note: Authority cited: Sections 5010 and 5027, Business and Professions Code. Reference: Section 5028, Business and Professions Code.

90. Exceptions and Extensions.

(a) A renewal applicant may be granted either an extension of time to complete continuing education requirements or an exception from continuing education requirements. Extensions or exceptions may be granted by the Board for the following causes:

- (1) Reasons of health, certified by a medical doctor, which prevent compliance by the licensee;
- (2) Service of the licensee on extended active duty with the Armed Forces of the United States;
- (3) Other good cause.

(b) No extension or exception shall be made solely because of age.

(c) Willful failure of a licensee to complete applicable continuing education within a specified extension of time shall constitute cause for disciplinary action pursuant to section 5100 (f) of the Accountancy Act.

(d) A renewal applicant who has met the requirement of Section 87 (a) and becomes subject to continuing education pursuant to Section 87(b), ~~or (c), or (d)~~ during the last 6 months of a two-year license renewal period shall be granted, upon request, an extension of time of up to 6 months in which to complete the continuing education required by Section 87 (b), ~~or (c), or (d)~~. Continuing education completed pursuant to this extension shall be part of the 80 hours of continuing education required under Section 87(a) for the next two-year renewal period. However, it shall not be part of the 24 hours of continuing education required under Section 87(b) or (c) or the 8 hours of continuing education required under Section 87(d) for the next two-year renewal period.

Note: Authority cited: Section 5027, Business and Professions Code. Reference: Sections 5028 and 5100 (f), Business and Professions Code. ❖